

Message Text

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DEPT PASS COMMERCE, BDC/LD, FOR FORMAN & PETERSON,
TREASURY

E.O. 11652: N/A
TAGS: EIND, OECD
SUBJECT: WORKING PARTY ON FUTURE INDUSTRIAL STRUCTURES
CONSIDERS US INVESTMENT REQUIREMENTS PROPOSAL

REFS: (A) OECD PARIS 34934, (B) DSTI/IND/76.69

1. SUMMARY: PURSUANT TO AGREEMENT REACHED AT NOVEMBER 17-19 MEETING OF INDUSTRY COMMITTEE (REF A) FUTURE INDUSTRIAL STRUCTURES (FIS) EXPERTS MET ON DECEMBER 9 TO CONSIDER FEASIBILITY OF US-PROPOSED STUDY OF MEDIUM-TERM FINANCIAL REQUIREMENTS FOR INDUSTRIAL INVESTMENT (REF B). MAIN CONCLUSION OF MEETING WAS THAT STUDY WAS IMPORTANT AND SHOULD GO FORWARD, BUT THAT ITS SCOPE SHOULD BE LIMITED. END SUMMARY.

2. US (WAGNER) LED OFF DISCUSSION BY UNDERLINING IMPORTANCE OF STUDYING RECENT TRENDS IN AND OUTLOOK FOR INVESTMENT AND FOR INVESTMENT FINANCE. HE STRESSED THAT EMERGENCE OF SUPPLY BOTTLENECKS IN 1972-73 EXPANSION HAD INTENSIFIED INFLATIONARY SPIRAL, AND SAID THAT SUPPLY PROBLEMS COULD ABORT PRESENT RECOVERY UNLESS EXPANSION WERE INVESTMENT-LED.

3. REPRESENTATIVES FROM ECONOMICS AND STATISTICS DIRECTORATE (KEATING, GROWTH STUDIES DIVISION) AND FROM
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FINANCIAL AFFAIRS DIRECTORATE (SPITAEILLER) INDICATED AT

MEETING THAT SEVERAL ELEMENTS OF PROPOSED STUDY COULD PROVIDE USEFUL INPUT INTO THE WORK PROGRAMS OF THEIR RESPECTIVE DIRECTORATES. SPECIFICALLY, KEATING RELATED PROPOSAL TO EPC/WP2 STUDY OF MEDIUM-TERM GROWTH PROBLEMS, AND MADE FOLLOWING POINTS: (A) WHILE SUPPLY OF INVESTMENT FINANCE CLEARLY A MACRO-ECONOMIC QUESTION, A CROSS-SECTORAL STUDY OF DEMAND FOR FUNDS WOULD BE IMPORTANT COMPLEMENT TO BROADER APPROACH ADOPTED IN WP-2; (B) SECTORAL ANALYSIS OF CAPITAL/OUTPUT RATIOS WOULD ASSIST WP-2 IN ASSESSING IMPLICATIONS OF CHANGES IN AGGREGATE RATIO. KEATING ADDED, HOWEVER, THAT STUDY SHOULD FOCUS ON RECENT AND PAST TRENDS IN THESE AREAS. SPITAEILLER FELT THAT DETAILED EXAMINATION OF FINANCIAL POSITIONS (E.G. DEBT/EQUITY RATIO, EXTERNAL VS INTERNAL FINANCING) IN DIFFERENT INDUSTRIES WOULD BE DESIRABLE.

4. SOME DELS WERE STILL SKEPTICAL CONCERNING FEASIBILITY OF STUDY. FRG PLEADED LACK OF OFFICIAL DATA (ALTHOUGH THEY DO HAVE "SEMI-OFFICIAL" DATA FROM BUNDESBANK AND OTHER SOURCES), AND DOUBTED THAT MACRO-ECONOMIC CONCLUSIONS COULD BE DRAWN FROM CROSS-SECTORAL ANALYSIS ENVISAGED IN PROPOSED STUDY. UK WORRIED ABOUT DATA GAPS, ESPECIALLY IN FINANCIAL DATA NECESSARY FOR PHASE II OF STUDY (INVESTMENT OUTLOOK TO 1980 AND 1985 AND FINANCIAL REQUIREMENTS). ITALY AND SWITZERLAND CLAIMED TOTAL PAUCITY OF USEFUL DATA. AUSTRIA WAS UNINSTRUCTED. FRENCH STRONGLY SUPPORTIVE. SWEDEN, BELGIUM, JAPAN AND AUSTRALIA GENERALLY SUPPORTED PROPOSAL, ALTHOUGH JAPAN QUESTIONED UTILITY OF PROJECTING SUPPLY OF FUNDS SINCE THIS WOULD BE INFLUENCED BY FUTURE SHIFTS OF MONETARY OR FISCAL POLICY OR BY SELECTIVE MEASURES TO RELIEVE FINANCIAL SUPPLY BOTTLENECKS.

5. COUNTRIES AGREED TO SUBMIT TO SECRETARIAT DATA FOR PHASE I. SECRETARIAT WILL ALSO SURVEY DATA SOURCES, AND WILL REPORT SURVEY RESULTS TO INDUSTRY COMMITTEE IN MARCH.

6. FIS EXPERTS REACHED FOLLOWING MAIN CONCLUSIONS WHICH IT WILL PASS ON TO INDUSTRY COMMITTEE AT LATTER'S MARCH
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MEETING:

- (A) STUDY IS IMPORTANT AND SHOULD MOVE FORWARD;
- (B) IT SHOULD BE LIMITED TO PHASE I; I.E., STUDY OF RECENT AND PRESENT INVESTMENT TRENDS AND FINANCIAL REQUIREMENTS. EXACT TIME PERIOD TO BE COVERED SHOULD BE DECIDED BY INDUSTRY COMMITTEE.
- (C) STUDY SHOULD FOCUS ON BASIC MATERIALS INDUSTRIES, ON INDUSTRIES WHERE BOTTLENECKS MOST LIKELY TO

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EMERGE AND ON INDUSTRIES WHICH ARE CAPITAL INTENSIVE.

(D) STUDY SHOULD ALSO EXAMINE (I) RELATIONSHIP BETWEEN EMPLOYMENT AND INVESTMENT; (II) RELATED QUESTION OF EXTENT TO WHICH INVESTMENT HAS BEEN FOR REPLACEMENT RATHER THAN FOR EXPANSION OF CAPACITY, AND (III) PAST TRENDS IN CAPITAL/ OUTPUT RATIOS.

7. COMMENT

WHILE IT APPEARED DURING NOVEMBER IC MEETING THAT US PROPOSAL FOR IC TO UNDERTAKE INVESTMENT STUDY HAD LITTLE CHANCE FOR SURVIVAL, IT NOW APPEARS THAT FIS WP'S QUALIFIED ACCEPTANCE WILL RESULT IN POSITIVE ACTION AT THE MARCH IC SESSION. GERMAN DEL'S VOCIFEROUS OPPOSITION TO PROPOSAL DURING NOVEMBER IC SESSION WAS CONSIDERABLY MORE RESTRAINED AT FIS MEETING. TO SUSTAIN EVOLVING GERMAN POSITION, US MIGHT CONSIDER LOW-KEY EXCHANGE OF RELEVANT INFORMATION BETWEEN NOW AND MARCH IC MEETING WITH GERMAN IC REP (AND VICE-CHAIRMAN) BUCHNER-SCHOPF. THE ADDRESS IS: BUNDERMINISTERIUM FUR WIRSCHTSCHAFT, 53 BONN DUISDORF, GERMANY.
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